R4105-6
2/9/89

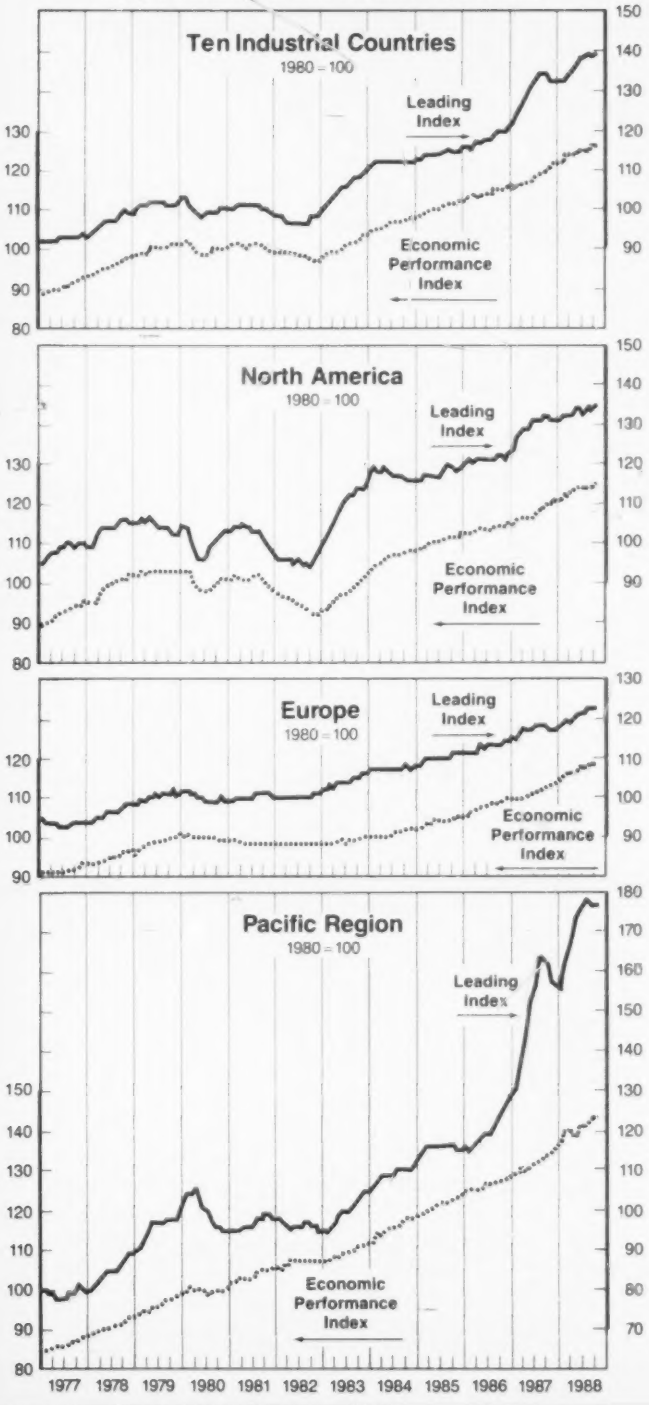
The Conference Board

Economic and Business Environment Program

International Economic Scoreboard

A Quarterly Report from The Conference Board **First Quarter 1989**

WORLD BUSINESS CYCLE



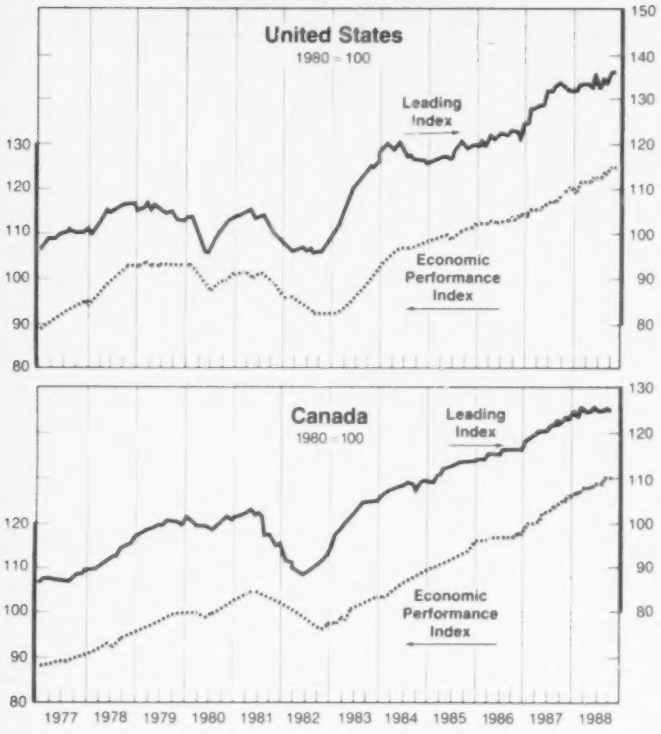
The global business cycle continued to advance as 1988 drew to a close, and the leading indexes for the major industrial countries signal that the expansion will persist into 1989. Overall, the pace is steady and sturdy.

The Pacific Region, led by Japan, stands out as the part of the world with rapid increases ahead, as indicated by the 12 percent growth rate in the region's leading index. In Europe and North America, the leading indexes are climbing at a more ordinary 4 percent.

Taiwan and Japan are the front runners at present with growth rates of 14 percent and 12 percent in their leading indexes. France is also strong, with its 9 percent growth rate. At the bottom are Canada with a 1 percent growth rate and the United Kingdom with a 1 percent rate of *decline*. In neither case, however, are the indicators sufficiently weak to suggest recession is imminent.

Copyright © 1989 by The Conference Board, Inc.

NORTH AMERICAN COUNTRIES



The leading index for the United States continues on the upgrade. The pace of advance is moderate, but that's a good thing when the economy is so close to full employment and inflationary pressures are high.

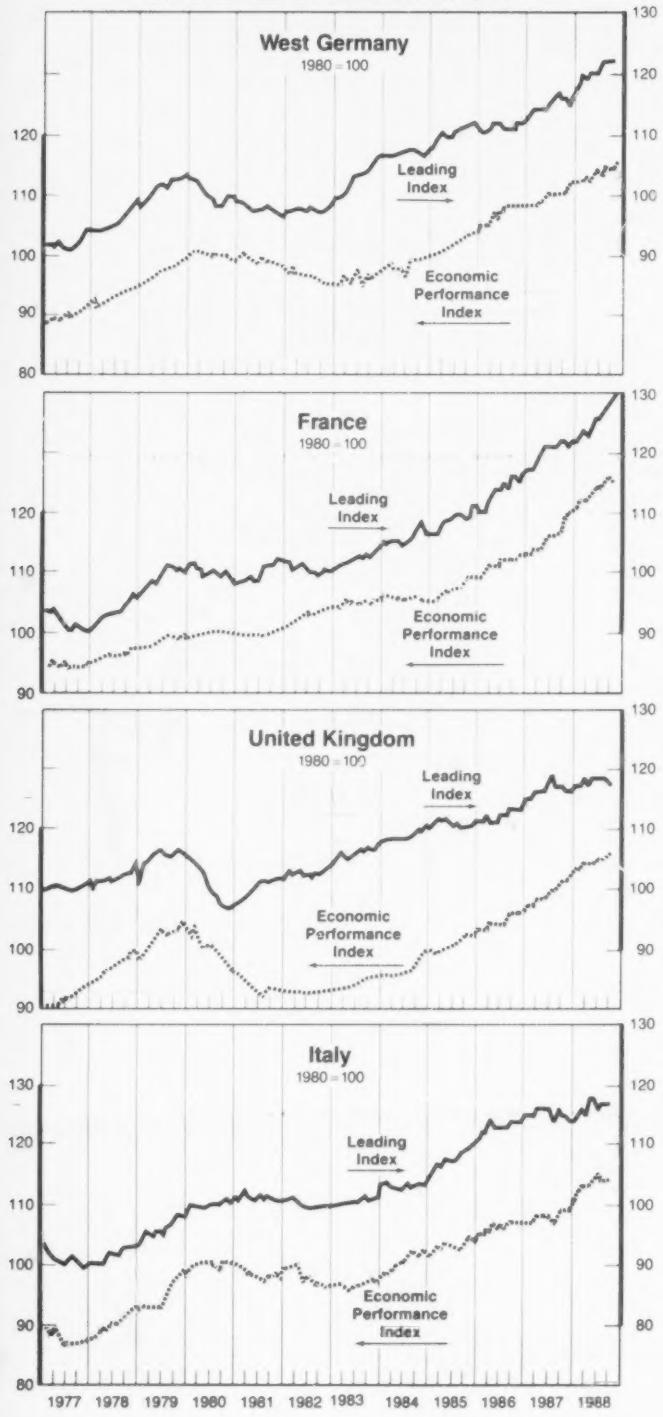
Prospects for Canada are questionable. The economy itself—as measured by production, employment and other component series of our economic performance index—continues to increase steadily if moderately. The leading index, however, has been essentially flat since last March. This sign of sluggishness is something of a surprise to most Canadian forecasters, who have been looking for a continuation of the long cyclical expansion.

Summary Of Growth Rates, Ten Industrial Countries

	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	1976-86	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
Ten countries	3	5	5	4	5	6	6	Expansion continuing	Oct.
9 countries excl. U.S.	3	6	5	4	8	9	7	Expansion continuing	Oct.
North America (2)	3	5	4	4	2	1	4	Expansion continuing	Oct.
Europe (4)	2	5	5	4	3	4	4	Expansion continuing	Oct.
Pacific Region (4)	4	7	6	6	14	17	12	Expansion continuing, leaders strong	Oct.
United States	3	5	4	4	0	3	3	Expansion continuing	Nov.
Canada	3	5	4	3	4	1	1	Expansion continuing, leaders weak	Oct.
West Germany	2	3	5	3	5	6	5	Expansion continuing	Nov./Oct.
France	2	6	6	4	4	6	9	Expansion continuing	Oct./Nov.
United Kingdom	2	5	5	5	1	1	-1	Expansion continuing, leaders weak	Oct.
Italy	2	7	7	3	0	2	3	Expansion continuing	Oct.
Japan	4	7	6	5	15	18	12	Expansion continuing, leaders strong	Oct.
Australia	3	5	8	10	6	8	4	Expansion continuing	Oct.
Taiwan, R.O.C.	8	3	9	11	14	17	14	Expansion continuing, leaders strong	Nov.
Korea, R.O.K.	7	11	5	8	8	11	9	Expansion continuing	Oct.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

EUROPEAN COUNTRIES



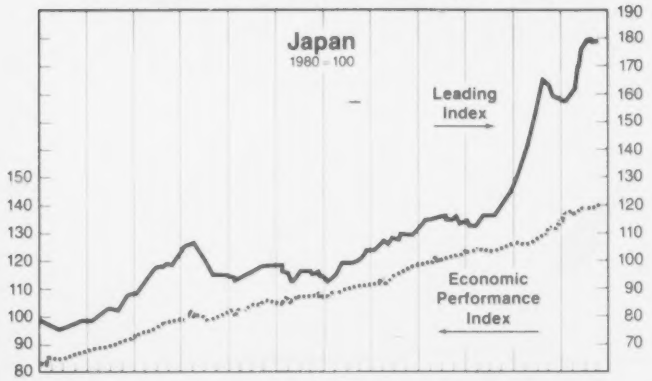
The West German economy continues to expand moderately, with the economic performance index growing at a 3 percent rate and the leading index at a 5 percent clip.

In France, the business cycle is looking a bit more robust, with the economic performance index climbing at a 4 percent rate and the leading index accelerating to a 9 percent growth rate.

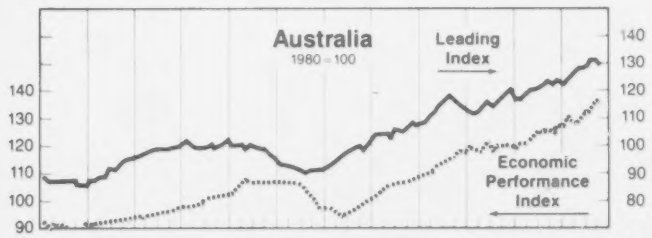
The indexes for the United Kingdom show a mixed pattern. The economy is doing well, as signaled by the 5 percent growth rate for the economic performance index. But the one percent rate of decline in the leading index presents a very different picture. This weakness in the leaders is not sufficient to signal that a recession is imminent, but it raises a doubt about continuation of the vigorous upswing.

Both the leading and economic performance indexes for Italy are advancing at a 3 percent rate, pointing to further gradual increases in economic activity.

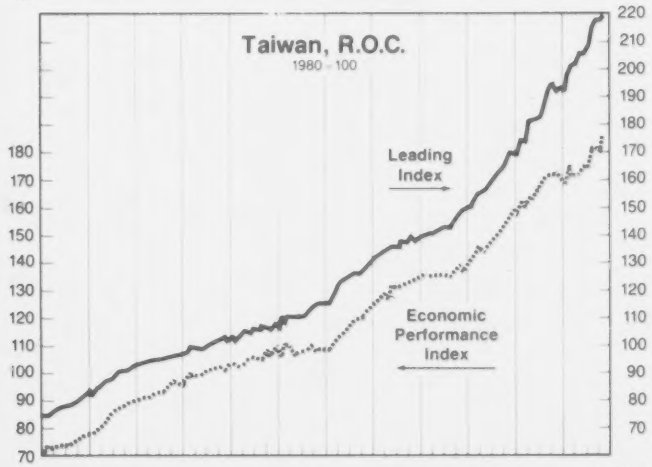
PACIFIC REGION COUNTRIES



In Japan, the economic performance index continues to advance at a fairly normal (for Japan) rate of 5 percent. The upswing in the leading index, however, has been bolstered by newly available data (mostly on inventory investment and household credit) that provide a distinctly more favorable outlook. The growth rate in the leading index is now at an impressive 12 percent.



The Australian economy is advancing at a sprightly 10 percent rate, as measured by the economic performance index. The leading index is also climbing, but at a more ordinary 4 percent rate.



In Taiwan, economic activity continues its rapid and seemingly relentless climb. The economic performance index shows an 11 percent growth rate; the leading index shows a 14 percent growth rate. Both rates are tops for the ten countries in this report.

The business cycle expansion in Korea continues, but at a rate quite a bit slower than in 1987 and only slightly faster than its long-term trend.

THE ASIAN DEVELOPING ECONOMIES: STEADY EXPORT GROWTH IN 1989

Numerous studies have shown that the *Scoreboard's* leading indexes for the developed countries are useful in forecasting the export trade of the developing economies. The rationale behind this is that the leading indexes for the developed countries anticipate their demand for imported materials and finished goods. In other words, the leading index for the developed countries is a leading index of export demand for the developing countries.

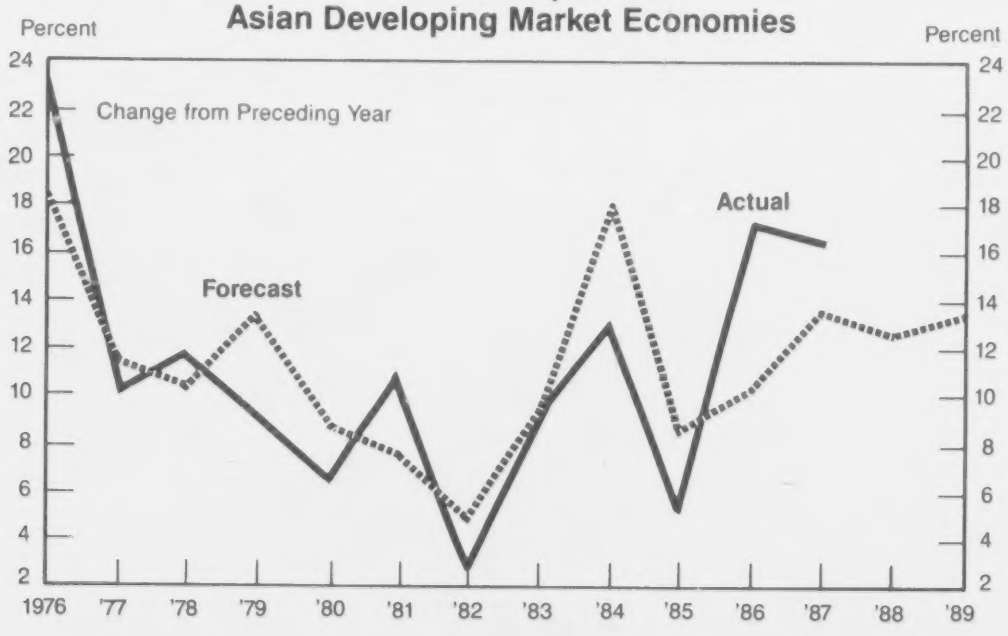
In this issue of the *Scoreboard* we apply this concept to the developing countries of the Pacific Basin. Statistics on the volume of exports of the developing market economies of Asia are available in the United Nations *Monthly Bulletin of Statistics* on a quarterly and annual basis. The Asian developing market economies include such large exporting countries as Hong Kong, Korea, Singapore, Indonesia, Malaysia, India, Thailand, the Philippines and others. Their total exports in 1987 came to $250 billion. About half of these exports went to the G-7 countries (United States, Canada, Japan, United Kingdom, West Germany, France and Italy). Hence, the fluctuations in demand in these countries, as reflected in the leading index for the G-7 group, obviously affects the exports of the Asian countries.

The accompanying chart shows that from 1975 through 1987 the year-to-year growth rates in total exports (in constant prices) of the Asian developing market economies were forecast quite accurately by the preceding December's growth rate in the leading index for the G-7 countries. The typical error of these forecasts was about three percentage points, which is modest compared with the high degree of volatility in the year-to-year changes in these exports.

The chart discloses that the growth of these exports moved sharply downward from 1976 to 1982. The growth rate dropped from 23 percent in 1975-76 to less than 3 percent in 1981-82. This sharp decline was, of course, a manifestation of the worldwide recession of the early 1980s. The resurgence in exports since then reflects the widespread expansion of economic activity that began in late 1982 and persists to the present. From 1985 to 1987, growth in the total exports of developing market economies in the Pacific Basin averaged over 16 percent per year. These are the two best years back-to-back since the mid-1970s.

Our forecasts for 1988 and 1989 suggest continued rapid growth. For 1988 the anticipated (not yet reported) growth rate is 12 percent; for 1989, 14 percent. Preliminary data for the first half of 1988 indicate that our forecast is in the ballpark. For 1989 the forecast assumes that the growth rate in the G-7 leading index, which is presently available only through October 1988, will be about the same in December. The projected 14 percent growth in Asian exports in 1989 is a bit below the 16 percent reported for 1987, but still an impressive rate of increase. Thus export trade will evidently continue to be a major contributor to the growth of the Asian developing countries.

Growth in Exports of Asian Developing Market Economies



Note: Forecast changes are based on the preceding December's six-month smoothed growth rate in the leading index for the G-7 countries as reported by the Center for International Business Cycle Research, Columbia Business School.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus, the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board*, April 1980 and *Business Cycles, Inflation and Forecasting*, Ballinger Publishing Co., 1983.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. These growth rates are shown in the first column of the table on page 2 of the quarterly version of the *Scoreboard*.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916

The Conference Board

845 Third Avenue, New York, N.Y. 10022 / (212) 759-0900
1755 Massachusetts Avenue, N.W., Suite 312, Washington, D.C. 20036
255 Smyth Road, Ottawa, Ontario, K1H-8M7, Canada
Avenue Louise, 207-Bte 5; B-1050 Brussels, Belgium

Prepared by Edgar R. Fiedler, Economic and Business Environment Program.
Reproduction permissible with full citation to The Conference Board as source.
Published quarterly at 845 Third Avenue, New York, New York 10022.